

THE EARNED INCOME TAX CREDIT

FREQUENTLY ASKED QUESTIONS

INTRODUCTION: The EITC is a tax credit for eligible taxpayers who work, but do not earn high incomes. Taxpayers who qualify and claim the credit could pay less federal tax, pay no tax or even get a tax refund beyond the amount of tax withheld.

The EITC has helped raise millions of families out of poverty and has had a high participation rate among low income workers. In Tax Year 2005, an estimated 22 million taxpayers received over \$41 Billion in EITC. However, the IRS estimates that up to 25 percent of all eligible taxpayers do not claim this important tax credit. At the same time, there are millions of workers who claim the credit erroneously, many because they simply don't understand the criteria. For this reason, the IRS is working to make it easier for taxpayers to know if they are eligible.

1. Who is eligible to claim the EITC?

Depending on income level, people who worked full- or part-time for at least a portion of 2006 may be eligible for the EITC. The following guidelines help determine whether a taxpayer could be eligible for the EITC:

- Workers without a qualifying child who were at least age 25 but younger than 65 at the end of 2006 and had earned income below \$12,120 (\$14,120 if married filing jointly).
- Workers with one qualifying child who had earned income of less than \$32,001 (\$34,001 if married filing jointly).
- Workers with more than one qualifying child who had earned income of less than \$36,348 (\$38,348 if married filing jointly).

2. How do individuals determine if they qualify for the EITC?

The EITC Assistant is an online tool to help taxpayers determine if they qualify for EITC, and why. It is available in English and Spanish at www.irs.gov/eitc. Taxpayers can also call a special phone line established by the State of California for EITC information during the tax season:

- Statewide English EITC Line: 888-3MY-REFUND
- Statewide Spanish EITC Line: 866-9Mi-Dinero

To determine eligibility, taxpayers may also review IRS Publication 596, Earned Income Credit, which offers a simple eligibility checklist. To receive a free copy of Publication 596, taxpayers can call 1-800-TAX-FORM (1-800-829-3676), visit www.irs.gov/eitc or inquire at post offices and libraries. Publication 596 is also available in Spanish.

3. How do eligible individuals claim the EITC?

Taxpayers claim the EITC by filing a federal income tax return with a Schedule EIC. Taxpayers can work with a tax professional, prepare their own tax returns, or seek assistance through a volunteer organization that offers free tax-preparation services to claim the EITC. See the Tax Assistance portion of the EITC Fact Sheet for information on Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE).

4. Does a taxpayer need to have a child to claim the EITC?

No. Taxpayers can qualify for the EITC with or without children. However, taxpayers with qualifying children are eligible for a much larger EITC than taxpayers without children.

5. What is a "qualifying child"?

- Relationship: The child must be the taxpayer's son, daughter, stepchild, eligible foster child, brother, sister, half brother, half sister, stepbrother, stepsister or a descendant of any of them whom the taxpayer cares for as his or her own child.
- Age: The child must be (1) younger than age 19 at the end of 2006; (2) younger than age 24 at the end of 2006 and a full-time student; or (3) any age if permanently and totally disabled at any time during the tax year.
- Residency: The child must live with the taxpayer in the United States for more than half of 2006. This includes the 50 states and the District of Columbia. It does not include U.S. Possessions, such as Guam and Puerto Rico.

6. Does the EITC affect other benefits taxpayers receive-such as welfare, Medicaid or subsidized housing?

In most cases, EITC payments will not be used to determine eligibility for Medicaid, supplemental security income (SSI), food stamps and low-income housing. Temporary Assistance for Needy Families (TANF) payments may be affected, depending on the state in which the taxpayer resides.

7. What are the penalties for negligence and fraud in connection with EITC claims?

If a taxpayer's claim for any year after 1996 was denied and it was determined that the denial was due to reckless or intentional disregard of the EITC rules, a person cannot claim the EITC for the next two years. If it is determined that the claim was denied due to fraud, the taxpayer cannot claim the EITC for the next 10 years.

8. What is Free File?

Free File allows qualified taxpayers to prepare and electronically file their own tax returns for free using commercially available tax preparation software. More than 70 percent of Americans are eligible for Free File. See www.irs.gov for more information.

9. What is advance EITC (AEITC)?

The advance EITC (AEITC) allows certain taxpayers to receive their EITC in installments throughout the year instead of a lump sum during the following filing season. Those who expect to qualify for AEITC can register beginning in January each year to receive part of the credit in each paycheck. AEITC can add to a taxpayer's take-home pay year round. For more information, visit the AEITC section of this press kit.

10. Where can individuals go for help with their tax preparation or to learn more about the EITC?

Taxpayers can seek assistance from a tax preparer or from Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) programs nationwide. VITA and TCE sites offer free tax preparation assistance for those who cannot prepare their own returns. Operated by trained volunteers, VITA and TCE sites are usually located in community and neighborhood centers, libraries, schools, shopping malls and other convenient locations around the country. To find the closest VITA or TCE site, taxpayers can call or go to the following web sites:

- 888-3MY-REFUND – Statewide English EITC Line
- 866-9Mi-Dinero – Statewide Spanish EITC Line
- English: www.icanefile.org/myrefund - English Web site for Connect California, Maria Shriver Statewide EITC Initiative
- Spanish: www.icanefile.org/midinero - Spanish Web site for Connect California, Maria Shriver Statewide EITC Initiative
- 1-800-829-1040 - IRS tax information
- www.irs.gov , keyword: VITA